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RHEHNSC/NSC WASHDC 1474  
RUEKJCS/SECDEF WASHDC 1359  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RHMFISS/DEPT OF ENERGY WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHDC  
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SUBJECT: KAZAKHSTAN: FINANCE MINISTER LAUDS COOPERATION -  
CONFIDENT IN DOMESTIC MARKET STABILITY

REFTEL: ASTANA 1508

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: During a September 5 meeting, Minister of Finance Bolat Zhamishev discussed with the Ambassador stability in the financial sector and U.S. technical assistance provided under the Cooperative Threat Agreement (CTR) program. Zhamishev conveyed his satisfaction with collaborative efforts to date, including the recently ratified anti-money laundering law [reftel], which will come into force in six months. Zhamishev expressed confidence in the long-term prospects for the financial sector and firmly defended government anti-crisis measures. He argued that export credit agencies and commercial creditors alike should be treated equally during BTA and Alliance Bank debt restructuring negotiations. END SUMMARY.

ZHAMISHEV SATISFIED WITH COOPERATION ON AML

13. (SBU) Zhamishev expressed his satisfaction with the collaborative efforts that had brought about the ratification of the anti-money laundering law, which according to him had passed through Parliament with "some difficulty," and would come into force in six months. The actual implementation of the law, he added, would have its own challenges and require significant technical and organizational effort, particularly as the government closely analyzes the "efficiency of its systems" in order to meet international standards. He noted this next phase as a potential area for future cooperation.

RATIFICATION OF ASSISTANCE TAX EXEMPTION IMMINENT

14. (SBU) Zhamishev reported that he expected the tax exemption proposal for equipment received as part of the Cooperative Threat Reduction (CTR) and Second Line of Defense programs to be approved by a final vote in the Prime Minister's cabinet on September 7. Following the vote, the measure would then require the Prime Minister's signature to come into force. (NOTE: Sources within the Prime Minister's Office report that the decree was approved on

September 7, and in accordance with internal procedure, should be registered and come into force on September 10. END NOTE.) According to Zhamishev, the government is now rapidly working on a list of contractors and subcontractors that qualify for tax-exempt status, in an attempt to finalize the list before the decree comes into force. Zhamishev reiterated his gratitude for previous and current technical assistance.

#### EDB ROAD SHOW COMING TO NEW YORK

15. (SBU) Zhamishev announced that he would be in New York City on September 21 as part of a Eurasian Development Bank (EDB) road show and hoped to meet with possible investors. According to Zhamishev, the Government of Kazakhstan is considering whether to solicit sovereign loans in 2010, including the likely issuance of sovereign Euro bonds. (NOTE: Kazakhstan has only successfully issued sovereign Eurobonds once, in 1998. END NOTE.) He said that Ambassador Idrissov and his staff in Washington are developing the schedule, and welcomed the Ambassador's offer to inform the Departments of Commerce and Treasury of his impending visit.

#### NO SUPPORT FOR SPECIAL TREATMENT OF ECA TRADE FINANCE

16. (SBU) The Ambassador then solicited Zhamishev's opinion on recent international export credit agencies (ECA) efforts to obtain preferential conditions as part of ongoing debt restructuring negotiations with BTA and Alliance banks. (NOTE: An international collective of ECAs sent a letter dated July 1, 2009 to President Nazarbayev urging the government of Kazakhstan to recapitalize its largest banks and guarantee full repayment of its trade finance obligations. The government has not officially responded, and press releases indicate its unwillingness to add more liquidity to the

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ailing banks, or to advocate for preferential treatment for the ECAs. END NOTE.) Zhamishev responded that the Government of Kazakhstan understood that the ECAs had predominantly funded real estate development with largely Russian-held assets in its dealings with the commercial BTA and Alliance banks. Most of these assets, he added, were valued at rates determined when real estate had reached its speculator-driven historic high several years ago. Mildly agitated by the line of questioning, Zhamishev said that the lending risks were "extremely high" during this time period. He appeared personally taken aback when addressing the ECA suggestion that the government of Kazakhstan now guarantee these privately-negotiated trade finance debts. "We think all these liabilities should be restructured for all parties. Otherwise, it would not be fair to all the creditors," he emphasized.

#### SBERBANK A LOGICAL CHOICE FOR BTA

17. (SBU) Zhamishev reiterated the official government position that it not become entrenched in the banking sector, and that Samruk-Kazyna's participation in BTA is seen as temporary. "As I'm sure you are aware, we would ultimately like to successfully reconstruct the bank [BTA] and sell it to Sberbank." The Russian Savings Bank "Sberbank," he argued, was a logical choice, because BTA was very active in Russia and Sberbank may be better positioned to recover assets. "Also," he added, "Russia has long wanted to become active in Kazakhstan's financial sector."

#### ZHAMISHEV DEFENDS GOVERNMENT ACTIONS - REMAINS HOPEFUL

18. (SBU) Zhamishev admitted that negative perceptions of the market, complicated by recent accusations of massive fraud on the part of top management of Alliance and BTA banks, do not help overall confidence in the Kazakhstani financial sector. However, he expressed a cautious optimism, saying that Kazakhstan needs "time and some positive events to refresh views." He defended the government's actions to date, saying that in his opinion, things will look much better once the restructuring of the struggling banks is completed. "The fact that the government chose to save the banks at all shows that we have a responsible approach towards the creditors. [Former BTA Chairman] Ablyazov came to us the day before and said 'the default starts tomorrow!' And as for Alliance, they didn't sell it to us for 100 tenge (NOTE: Less than \$1. END NOTE.)

because they were generous! For us, it would have been very simple to have liquidated the banks. We could have said to the creditors, 'Excuse us,' knowing that no bank would have meant no liabilities." Zhamishev explained that he and his colleagues in the government understood that there otherwise would have been a significant reaction in the international markets, questioning the lack of action. "And so we acted. We decided to assume responsibility and save the bank." In conclusion, he noted that "the return of trust is a long and difficult process, but judging by the actual situation, we believe objective analysis will eventually decide in our favor."

19. (SBU) COMMENT: Kazakhstani officials likely will continue to bristle at suggestions that they should guarantee certain debts incurred by their largest banks during the boom years of easy credit from the West. This is particularly true for BTA and Alliance banks' obligations engineered by former management now wanted in Kazakhstan on charges of massive fraud. Kazakhstani officials remain convinced that time will heal all wounds, confidence will return to the markets, and the world will judge them favorably in the end for the measures justifiably taken to maintain financial sector stability and their image amongst international creditors.  
END COMMENT.

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